

FISCAL NOTE
SB 1515 - HB 874

March 20, 2001

SUMMARY OF BILL:

- Amends TCA 67-4-712 to exempt certain "affiliated persons" from the business tax imposed in TCA Title 67, Chapter 4, Part 12.
- Defines "affiliated persons" as business entities which are commonly controlled by any entity holding directly or indirectly 50% ownership of stock or capital of each entity, or business entities, one of which holds directly or indirectly 50% ownership of the stock or capital of the other.
- Provides the provisions of the bill are retroactive to January 1, 1991. By its retroactive application, the general assembly confirms its intent that the services rendered between these types of companies were not subject to the business tax under prior law.

ESTIMATED FISCAL IMPACT:

Decrease State Revenues - Exceeds \$150,000 Recurring
\$1,450,000 One-Time

Decrease Local Govt. Revenues - \$850,000 Recurring
\$850,000 One-Time

Estimate assumes:

- The total decrease in state revenues cannot be determined but can be reasonably estimated to exceed \$150,000 on a recurring basis.
- A one-time decrease in state revenues of \$1,450,000 based on the bill being retroactive to 1991 of which,
 - \$1,000,000 would be due to the taxpayer as a result of the audit assessment from 1992 and
 - \$450,000 resulting from liability of the state for refunds of the tax paid for a three-year period upon passage of the bill.
- The total decrease in local government revenues is estimated to exceed \$850,000 on an annual basis.
- A one-time decrease in local government revenues of \$850,000 based on the bill being retroactive to 1991. Local governments are liable for refunds for a one-year period.

For information purposes:

- Based on information provided by the Department of Revenue, there is at least one taxpayer that as a result of an audit was assessed approximately \$1,000,000. The state is the sole beneficiary of the \$1,000,000 assessment because the state discovered the underpayment in 1992.
- Business tax is allocated 15% to the state and 85% to the local government.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director

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